

Message Text

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SUBJECT: PRESSURES MOUNTING ON TURKEY'S FOREIGN EXCHANGE POSITION

1. ACCORDING TO MOST RECENT CENTRAL BANK DATA TURKEY'S OFFICIAL GOLD AND FOREIGN EXCHANGE RESERVES HAVE DROPPED \$150 MILLION BETWEEN JUNE 18 - JULY 2 AND HAVE REACHED A NEW LOW OF \$760 MILLION. (GOLD RESERVES MAKE UP \$146 MILLION OF \$760 MILLION FIGURE). THIS IS THE LOWEST TURKISH FOREIGN EXCHANGE RESERVES HAVE BEEN SINCE MID 1972. FOREIGN EXCHANGE HELD IN COMMERCIAL BANKS HAS DROPPED FROM A HIGH OF \$286 MILLION IN FEBRUARY 1976 TO AN ESTIMATED \$125 MILLION IN JULY 1976.

2. TURKISH IMPORTS WERE \$2.5 BILLION DURING THE FIRST SIX MONTHS OF 1976 AND EXPORTS WERE \$1.2 BILLION DURING THE SAME PERIOD. THE TRADE DEFICIT HAS BEEN FINANCED BY WORKER REMITTANCES, DRAW-DOWN OF \$300 MILLION IN RESERVES, BORROWING OF \$150 MILLION FROM IMF AND INFLOWS

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OF ABOUT \$350 MILLION IN SHORT TERM BORROWINGS FROM THE

EURO-DOLLAR MARKET.

3. TURKISH EXPORTS FOR FIRST SIX MONTHS OF 1976 ARE UP 80 PERCENT OVER THE SAME PERIOD LAST YEAR. IMPORTS ARE UP ONLY SLIGHTLY OVER LAST YEAR. WHILE DELAYS IN FOREIGN EXCHANGE TRANSFERS HAVE HELD IMPORT GROWTH DOWN SOME, IT IS CLEAR FROM PUBLIC STATEMENTS OF PRIME MINISTER DEMIREL AND OTHER GOT OFFICIALS THAT THE GOT INTENDS TO IMPORT AT LEAST \$2.5 BILLION MORE DURING THE LAST SIX MONTHS OF 1976. EXPORTS ARE BOOMING, BUT GIVEN SEASONAL MAY-OCTOBER DOLDRUMS, FOREIGN EXCHANGE EARNINGS FROM EXPORTS WILL NOT LIKELY EXCEED \$150 MILLION PER MONTH FOR NEXT THREE MONTHS.

4. WORKER REMITTANCES ARE DOWN SOME 30 PERCENT FOR FIRST FIVE MONTHS, BUT JULY-SEPTEMBER ARE TRADITIONALLY MONTHS OF LARGEST INFLOW (\$135-200 MILLION PER MONTH IN 1974 AND 1975). EVEN GOT OFFICIALS CAN ONLY SPECULATE, HOWEVER, WHETHER THIS RATE WILL BE MAINTAINED IN 1976, OR WHETHER REMITTANCES WILL REMAIN DEPRESSED. DEPOSITS CONVERTIBLE TO FOREIGN EXCHANGE (SHORT-TERM BORROWINGS FROM EUROMARKET) HAVE REACHED APPROXIMATELY \$1.4 BILLION. IN GENERAL, TOTAL INFLOW IS GROWING SLIGHTLY. SOME NEW MONEY IS COMING IN AND MOST BANKS ROLL-OVER THEIR NOTES AS THEY COME DUE, ALTHOUGH USUALLY BANKS DEMAND REPAYMENT AND THEN WHEN REPAYMENT IS MADE, REDEPOSIT THE MONEY. NEVERTHELESS, THERE ARE ESTIMATES THAT AS MUCH AS \$500 MILLION OF THESE SHORT-TERM NOTES WILL COME DUE IN THE PERIOD JULY-SEPTEMBER 1976.

6. COMMENT: PRIME MINISTER DEMIREL HAS IN A RECENT MILLIYET INTERVIEW AND IN A PRESS CONFERENCE ON JULY 10, ASSURED THE COUNTRY THAT THE ECONOMIC SITUATION IS IMPROVING, THAT THE 8 PERCENT GNP GROWTH RATE WILL BE MAINTAINED AND THAT SUFFICIENT FOREIGN EXCHANGE IS AVAILABLE TO CONTINUE AVERAGE MONTHLY IMPORTS OF \$400-500 MILLION. THE PRIME MINISTER OPTIMISTICALLY TOLD HIS LISTENERS OF \$2 BILLION IN PIPELINE PROJECT CREDITS, OF NEW INFLOWS FROM TURKISH WORKERS AND OF EXPANDED EXPORTS. WHILE DEMIREL MAY WELL BE CORRECT IN HIS ANALYSIS, THE NEXT LIMITED OFFICIAL USE

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THREE MONTHS LOOK VERY CRITICAL FROM A BALANCE OF PAYMENTS VIEWPOINT. GIVEN THE DETERMINATION OF THE GOT TO AVOID IMPORT CUTS, THE GOVERNMENT IS, IN EFFECT, DEPENDENT UNTIL EXPORTS PICK UP IN OCTOBER, ON WORKER REMITTANCES AND THE CONFIDENCE OF THE INTERNATIONAL BANKING COMMUNITY. SHOULD WORKER REMITTANCES REAMIN DEPRESSED, SHOULD AN ANTICIPATED \$150 MILLION SYDICATED LOAN NOT COME THROUGH AND SHOULD SHORT-TERM CONVERTIBLE LIRA DEPOSITS NOT BE

ROLLEDAOVER, THE GOVERNMENT MAY BE FORCED TO CUT IMPORTS
DRASTICALLY, THUS DAMAGING THE ECONOMIC
GROWTH RATE AND INCREASING INFLATIONARY PRESSURES. SINCE,
TO A LARGE EXTENT, THE FUTURE OF PRIMIN DEMIREL AND HIS
GOVERNMENT WILL BE DETERMINED BY HOW THE PUBLIC ASSESSES
HIS MANAGEMENT OF THE ECONOMY, EVENTS OF THE NEXT SEVERAL
MONTHS COULD ALSO HAVE A BEARING ON THE CONTINUATION OF THE
PRESENT GOVERNMENT.
MACOMBER

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